



State of Louisiana



**Government Efficiencies
Management Support**

Final Report

 **ALVAREZ & MARSAL**





CHAPTER 1: EXECUTIVE SUMMARY

INTRODUCTION

Alvarez & Marsal's (A&M) objective in the Government Efficiency Management Support Project (GEMS) has been driven by the fundamental premise that the citizens of Louisiana deserve a government that is a careful steward of their tax dollars and is committed to provide services in the most effective way possible.

This administration – including many talented and dedicated government employees – have sought to do just that, to deliver constant improvement and efficient performance that, wherever possible, reduces costs while preserving and, in some cases, improving vital services in meaningful ways.

The GEMS project is the latest step in this ongoing process. Throughout this endeavor, A&M has kept its focus on:

- Identifying ways in which government can be both more efficient with its resources and effective with its services.
- Developing strategies for improving services and helping government function better – in addition to saving money.
- Producing recommendations that are practical and can be implemented to produce results in the near-term.

A team of more than 50 professionals from Alvarez & Marsal and its subcontractors has devoted more than 15,000 hours over the past five months to conducting an in-depth analysis of the operations of the agencies included in the GEMS contract.

The team included seasoned professionals, former corporate executives and former government officials,

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many with extensive expertise and experience developing and employing best practices on behalf of entities in government and the private sector. That background enabled them to identify issues that had not previously come to light, challenging existing norms, and to develop strategies for accomplishing long-sought after goals.

The mandate for A&M and its subcontractors was for consulting and management support services for strategic enterprise and agency policy, planning and transformation initiatives. The agencies reviewed were:

- Louisiana Department of Revenue
- Department of Transportation and Development
- Louisiana Economic Development
- Department of Health and Hospitals
- Department of Children and Family Services
- Department of Public Safety
- Department of Corrections
- Office of Juvenile Justice
- Division of Administration
 - Real Estate and Facilities Management
 - Procurement
 - Office of General Counsel
 - Office of Group Benefits
 - Office of Risk Management

This analysis has produced a total of 72 recommendations. These recommendations would result in approximately \$2.7 billion in cost savings or additional revenue for the state over a five year period with over \$574.6 million in annual savings or additional revenue after the first year of implementation.

Some of the most notable recommendations include:

- Generating additional revenue by the Department of Revenue of \$45 million over two years through a new approach to litigation with delinquent taxpayers and recurring new revenue of approximately \$53 million by working through the current backlog in audits, employing new technology and creating a cross-functional

discovery team to make the audit function work better in the future.

- Obtaining savings through the Office of Risk Management of approximately \$21 million a year by changing the process for procuring insurance on state-owned property, in ways that will attract more bidders and lower rates.
- Enabling the Department of Transportation and Development (DOTD) to save more than \$20 million a year by centralizing some of the administrative functions now taking place at the district offices, consolidating some of the non-emergency equipment used by the nine district offices, and hiring staff engineers to bring in-house some routine engineering work, along with several other recommendations. As a part of this, DOTD could realize an additional \$10 million over two years from sale of property.
- Utilizing computer-aided-dispatch (CAD) technology to provide the state police with a state-of-the-art dispatch center that improves operations and enhances public safety, while saving the State's taxpayers over \$800,000 a year once in place.
- Requiring home healthcare aides, who are being paid for out of state funds, to log their time through electronic time sheets, rather than through paper time sheets, thus eliminating approximations, overstatements of time spent with patients and other errors and, based on the experience of other states, saving the state \$18 million a year once fully implemented.
- Creating a statewide occupancy management system and database for all state facilities and doing light renovations to reconfigure underutilized space in order to free up state-owned space for use by agencies currently occupying leased space, and result in a cost savings of approximately \$11 million per year after implementation. The state could also realize an additional \$22 million over two years from the sale of excess property.

- Implementing a strategic sourcing Initiative for all state procurement (in excess of \$3.2 billion in addressable budget is spent each year), reducing the number of vendors for each product or service, analyzing spending by category, rationalizing fee and price schedules, sharing information among agencies – resulting in cost savings estimated at more than \$55 million a year.

The complete set of the 72 recommendations, along with a detailed discussion and analysis of the work, follows in this report.

OVERVIEW OF THE GOVERNMENT EFFICIENCY & MANAGEMENT SUPPORT PROJECT

OVERVIEW OF PERFORMANCE MANAGEMENT/IMPROVEMENT IN LOUISIANA

Since 2008, the State of Louisiana has enacted many reforms and instituted initiatives that have resulted in operational efficiencies across all state agencies. Projects such as the implementation of new call center technologies for customer service, modernizing existing legacy systems to reduce staffing needs, reorganizing divisions to improve

productivity, realigning business functions within and between departments, and selling unused property and equipment improved the service of all state agencies to taxpayers. Other notable projects have included privatizing claims management and loss prevention in within the state government's self-insurance program, creating an Office of Mental Health by merging state mental health units, consolidating the state's corrections population, and privatizing Dabadie and Avoyelles correctional facilities.

In 2009, the Louisiana Commission on Streamlining Government released a report adopting 238 recommendations to improve efficiency (highlighted in Figure 1.1). Since 2008, the budget for the agencies in the scope of this report were reduced by 36% from \$20.2 billion in 2008 to \$12.8 billion in 2014.

The A&M team closely reviewed all existing efforts and integrated the Commission's suggestions into A&M recommendations where possible. There were no duplicative efforts and the process provided analyses that assisted in the development of final recommendations. A&M's final report provides recommendations across nine agencies, incorporates the best practices of earlier efforts, and extends Louisiana's transformation of government processes. A&M's goal is to extend and continue the productive efforts of the budget report over the next five-year period.

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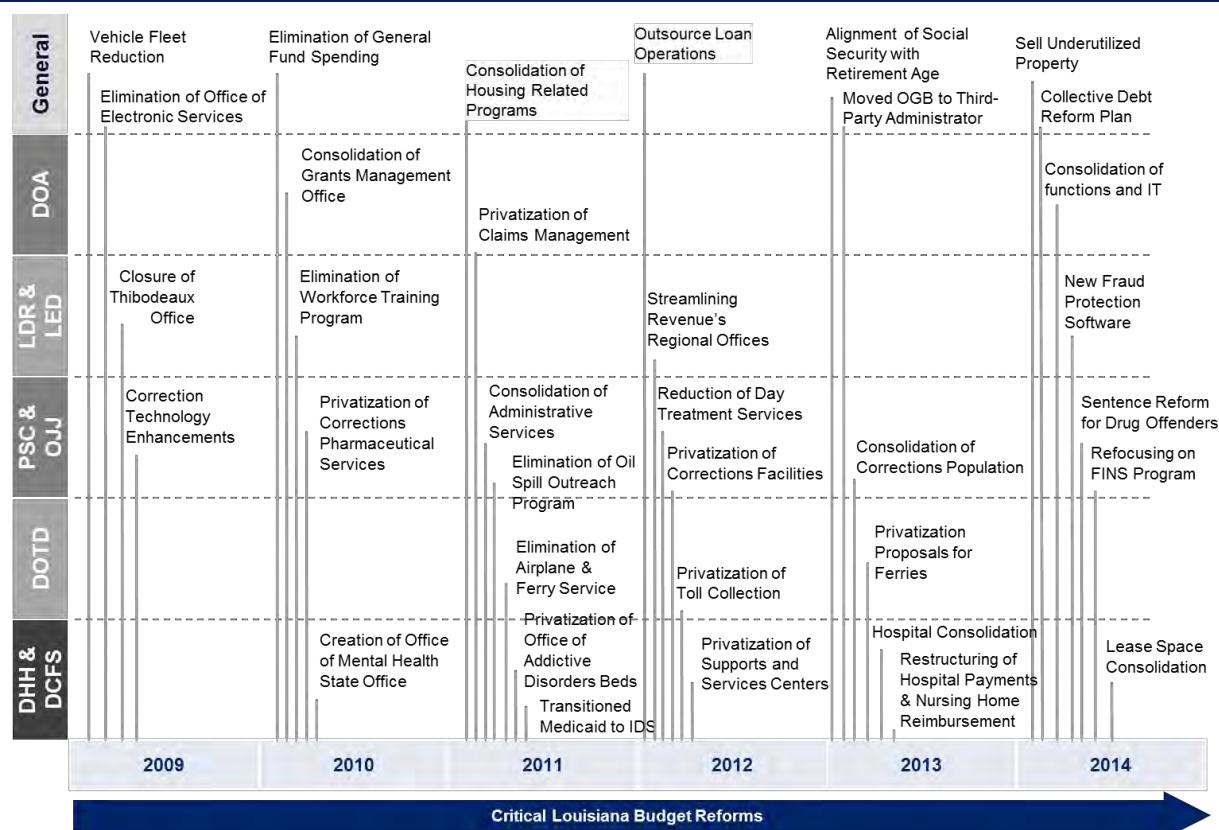


Figure 1.1: Highlighted Louisiana Reform Initiatives

COMPREHENSIVE REVIEWS

State governments are perennially faced with the conflicting imperatives of providing essential services to citizens while placing the minimum burden on taxpayers. This tension increases during and in the aftermath of economic downturns, when citizens become more reliant on government services at the same time that governments are operating under tightened resource constraints. The challenge is to determine whether to reduce services or increase revenue collection from the state's already burdened citizenry. Increasingly, states are opting to pursue a third approach: comprehensive efficiency reviews across governmental departments, designed to identify new, often innovative, ways of maintaining needed services at lower cost. After years of cost cutting and improvements in government efficiency, that is exactly the path that Louisiana state government decided to pursue – extending on previous years of progress.

Such an efficiency review is an evaluation that challenges the purpose, operations, and policies of state government with the objective of eliminating waste, saving money, and improving service. It is an intensive undertaking, intended to empower departmental managers and policymakers to challenge established operational norms, assumptions, and practices to find leaner, more efficient, and smarter ways to do business.

Louisiana has a long history of performance reviews, dating back to one performed by the Treen Administration in the early 1980s. A similar approach was performed by the State of Texas in 1991, with the creation of the Texas Performance Review. The Texas Legislature authorized the state's Legislative Budget Board and the State Comptroller to assemble a staff of more than 100 auditors, research analysts and other specialists from 16 state agencies and the private sector; in all, devoting about 54,000 hours to the initial review effort. The first Texas Performance Review report detailed nearly 200 proposals touching

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every facet of state government. Many failed to survive the opposition of competing interests; however, nearly two-thirds of the proposals were ultimately adopted, achieving \$2.4 billion in general revenue savings and sharply reducing the budget gap.

Many other states have conducted comprehensive Texas Performance Review-modeled initiatives in recent years, including Arizona, California, Georgia, North Carolina, South Carolina, Virginia, West Virginia, Tennessee, Colorado, Iowa, New Mexico, Tennessee, Washington, Wisconsin, and others. Like Texas, some states – including Washington – now have statutorily mandated that they be conducted on a routine basis. States that have conducted similar top-to-bottom efficiency reviews have generally identified savings of five to six percent of the general fund budget, illustrated as follows:

- The first Texas Performance Review's \$4 billion in savings represent a 6.7 percent savings in a two-year budget of about \$60 billion
- A performance review of the New Mexico state government operations generated potential savings of \$379 million over a five-year period
- Iowa's Efficiency Review in December 2009 identified potential savings of \$344 million – or as much as seven percent of the state budget – and the legislature enacted, or the Governor ordered through executive order, \$270 million of those efficiencies, amounting to more than five percent of the state's general fund budget
- The California Performance Review identified savings accounting for six percent of the state's budget
- Puerto Rico conducted a government-wide assessment in 2012 that led to the design of a multi-year, \$1 billion fiscal and operations improvement program, including \$500 million in additional revenue
- Tennessee's Top to Bottom Review resulted in 332 recommendations spanning 22 state agencies

The 6.5 percent savings target set by Louisiana set a high bar relative to what other states have achieved, especially given that extensive efficiency reforms have already been undertaken in the years preceding the launch of this review.

A&M's performance review of Louisiana has two key differentiating factors that set it apart from its predecessors, making it innovative and even more actionable. First, the recommendations that follow are not top-down reforms being mandated by leadership but rather the result of a collaborative process involving vigorous vetting of assumptions with relevant agencies and a lengthy process of obtaining buy-in from affected stakeholders. Secondly, A&M has provided a blueprint for the full implementation process for each recommendation, making all savings and new revenue not just notional but actually realizable.

ORIGIN OF THE GOVERNMENT EFFICIENCIES MANAGEMENT SUPPORT PROJECT

Building on previous performance management and improvement efforts, the state leadership decided to target additional reforms and operational efficiencies to produce further cost savings and improve revenue collections for the FY15 budget cycle. Several agencies and areas were prioritized by the state as candidates for a wide-ranging assessment. The initial broad areas to be assessed across state agencies included but were not limited to the following areas of: public health, transportation, public safety and justice, revenue and debt collection/enhancement (with no net new taxes), facility and asset management, risk management and public finance, and general management and finance. The state determined to pursue this government efficiency effort across the following nine departments and offices:

- Division of Administration (DOA)
 - Office of General Counsel (OGC)
 - Office of Risk Management (ORM)
 - Office of Group Benefits (OGB)
 - Facilities

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- Procurement
- Department of Children and Family Services (DCFS)
- Department of Corrections (DOC)
- Department of Health and Hospitals (DHH)
- Department of Public Safety (DPS)
- Department of Transportation and Development (DOTD)
- Louisiana Department of Revenue (LDR)
- Louisiana Economic Development (LED)
- Office of Juvenile Justice (OJJ)

Through a Request for Information (RFI) process, the State of Louisiana determined that the use of consulting services to assess the operations of selected agencies would increase savings, operational efficiencies, and revenue maximization of state general funds in the next budget cycle. The state set the annual savings goal of \$500 million in state funds.

A Request for Proposal (RFP) for Business Reengineering/Efficiencies Planning and

Management Support Services was issued by the Louisiana Division of Administration, Office of the Commissioner on September 19, 2013. The State of Louisiana announced its intent to award the contract to the firm of Alvarez & Marsal on November 22, 2013. Following contract negotiations, the project was launched on December 16, 2013.

Given the extensive scope of the state's existing efforts to streamlining government operations and the success of this administration in identifying opportunities for savings and implementing reforms, A&M understood from the start that this undertaking would be a challenging one. Identifying new efficiencies and other cost-saving measures required searching out less apparent opportunities to achieve the desired improvements and to complement the many reforms already in place and planned for coming years.

THE REVIEW PROCESS

THE CONSULTING AND STATE TEAMS

The Government Efficiency & Management Support project was conducted by Alvarez & Marsal in coordination with the Louisiana Division of

Administration and leaders from each of the agencies participating in the review. Commissioner of Administration Kristy Nichols oversaw all aspects of the state's participation, supported by a GEMS Steering Committee and Project Team as illustrated below.

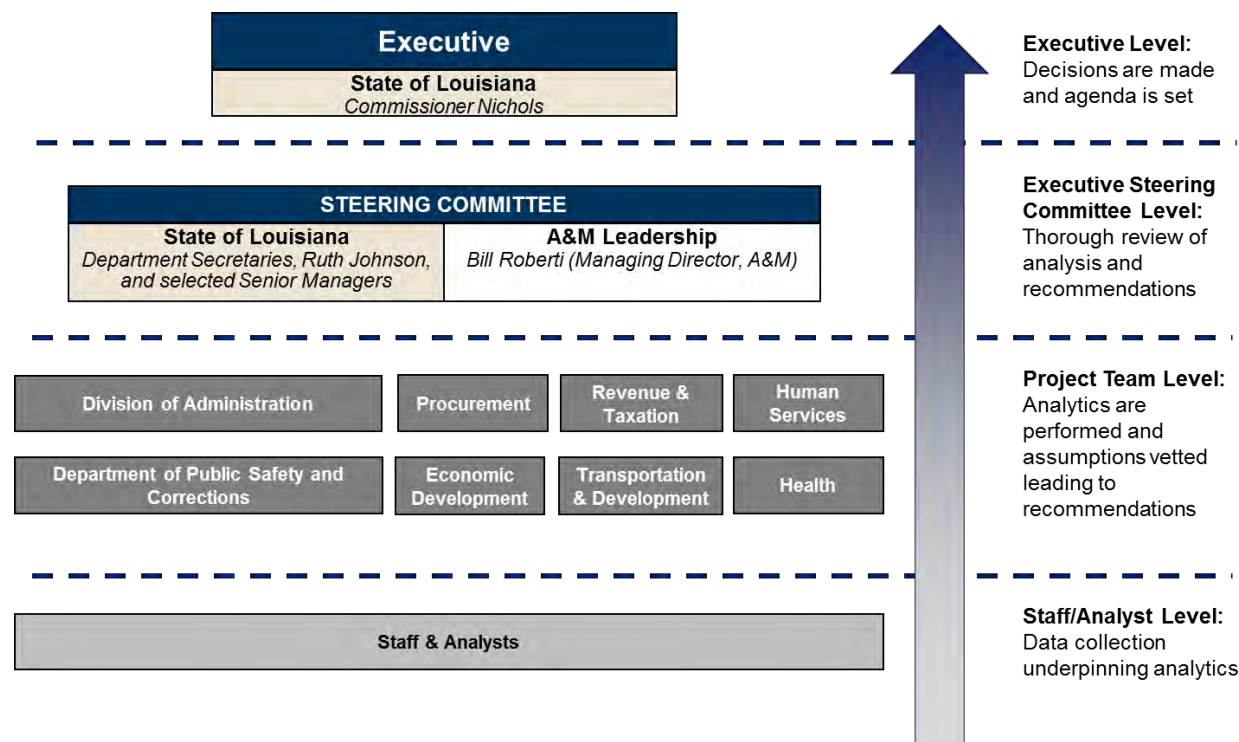


Figure 1.2: GEMS Project Roles and Responsibilities

PROJECT TIMELINE AND DELIVERABLES

In support of the administration's goals to drive significant cost savings over the next five years, Alvarez & Marsal conducted an intensive government effectiveness and efficiency assessment with overarching project management, communications, and stakeholder management. While the state's original RFP envisioned the first 90 days of the project consisting of initial project analysis, DOA challenged the A&M team to produce efficiency proposals so that Louisiana leaders could act as

quickly as possible to position the state for success over the next several years.

To build and implement successful recommendations, the A&M team of professionals dedicated a significant effort working with the state: over 15,000 hours for the engagement, with a team of over 50 professionals, including six managing directors working full-time on the ground. The project culminated in a total of 72 recommendations with projected savings of \$2.7 billion in state funds over five years with \$574.6 million in the first full year after implementation.

Immediately following the December 16, 2013, kick-off meeting, DOA leaders and A&M met with DOA

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programmatic leads and undersecretaries of each department involved in the GEMS review. This group collaborated closely throughout the project to analyze data and budget information, and provide relevant history of particular department programs and processes. A&M immediately followed the project launch meetings with a comprehensive series of departmental interviews and the collection, review, and analysis of state finance and budget data, current staffing levels, and other recent efficiency reviews and savings initiatives in the state. The recommendations outlined in this report were developed through a collaborative process with the Steering Committee and Project Team to ensure that a wide array of opinions, insights, and analyses were considered for each issue.

After the initial four weeks of data gathering, compilation, analysis, interviews of state personnel in all departments under review, A&M developed a wide-ranging list of potential issue areas that could yield efficiency gains and budgetary savings either in individual departments and divisions or throughout Louisiana state government. These initial findings and opportunities for each department, division, or function were consolidated into an issues docket.

Over the course of the project, A&M developed component analytics and integrated them into the final report. These components fall into two distinct areas, the Core Analytics and the Project Implementation Planning Reporting Structure, illustrated as follows:

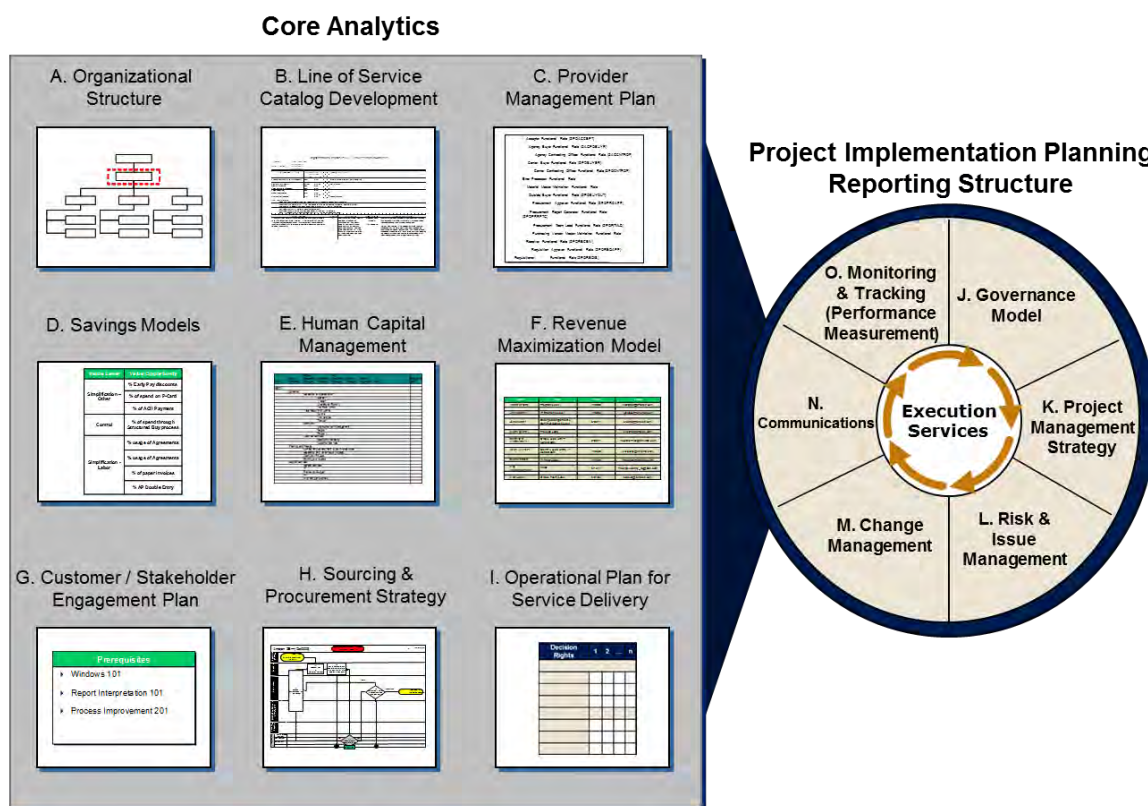


Figure 1.3: A&M's Analytic Framework for the Final Report

PROCESS

GEMS Project Management Strategy

Efficiency and management reviews are much more than financial audits. Efficiency reviews examine whether organizational structure and services are aligned or if they need to be changed and/or eliminated.

For the GEMS project, A&M used a structured approach to evaluate Louisiana's government services and to identify possible savings, efficiencies, opportunities for improved customer service and new non-tax revenues. This approach allowed the A&M team to highlight the effectiveness of each organization or program, challenge assumptions, and find new ways of doing business.

As a guiding principle throughout the GEMS review, Alvarez & Marsal worked with department employees to challenge assumptions about why a program or service exists, as well as how business is conducted.

The GEMS project was designed to look beyond simple budget cuts to answer questions important for the continued viability of each Louisiana department, division, and program studied.

The process was used to:

- Challenge the process by which each agency provides services
- Rethink how the department, program, or activity in question functions
- Determine whether any departments, programs, or activities are not as efficient in carrying out their duties as they could be and whether some

activities could follow different service delivery models

- Identify duplication in procedures, programs, or staffing, and eliminate waste
- Assess optimal staffing levels and efficiencies
- Assess the status of communication between staff and management and recommend improvements
- Review and recommend corrections to problems that have caused issues or concerns
- Design implementation plans for recommended improvements so that the savings would not only be identified but also realizable
- Work with agencies to gain buy-in and enable leadership to take ownership of the recommendations and the implementation process

These final two points are especially important as they set this report apart from previous comprehensive reviews conducted by other states, which focused largely on identifying savings. Louisiana has already expended significant time and energy on identifying cost savings over the last five years. To make this review successful, Alvarez & Marsal, in conjunction with the State of Louisiana, had to examine many of the potential areas that would require a great deal of effort to obtain meaningful results. It was therefore vital for A&M to not only uncover where savings lay but also plot the course for bringing these recommendations to fruition.

As illustrated in Figure 1.4, A&M used a three-step process to create the recommendations included in this report:

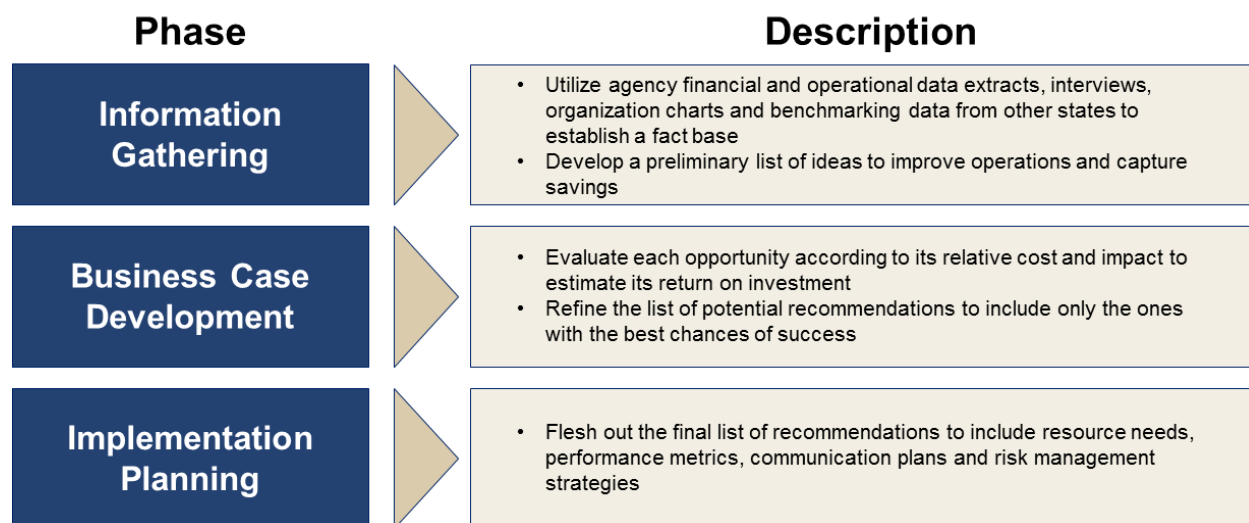


Figure 1.4: GEMS Project Management Strategy

Efficiency reviews are multi-phased processes that begin with assessing the capabilities of existing programs, systems, and procedures. Based on these assessments, recommendations for improved efficiency and performance are developed. Then, in subsequent phases of the review, implementation plans are created to monitor progress toward improved outcomes.

Information Gathering

The information-gathering phase is a critical first step to establish the framework and processes for any efficiency review. At the commencement of the GEMS project, A&M met with DOA and state leadership to identify: 1) the best sources of qualitative and quantitative information for the initial budget and process analysis; and 2) any key state stakeholders who could serve as resources for information. A&M also distributed an initial data collection request that included financial, program, and operational data, as well as organization charts, to all in-scope agencies for information that would lead to initial hypotheses and in-depth analyses.

As the A&M team collected all the necessary data, the team held interviews, pursued follow-up data collection, gathered appropriate benchmarks and best practices, conducted budget and spend analysis, and

reviewed operational efficiency efforts (current and planned).

A&M then identified opportunities specific to each department's operating plan and structure, designed hypotheses to test inefficiencies, and developed a preliminary case for action. From there, A&M submitted a second data collection request to establish the baseline analysis, and determined an efficiency assessment methodology.

Business Case Development

A&M's comprehensive and innovative approach to government-wide analysis and industry-based methodology for conducting program assessments is ideal for evaluating large-scale, cross-cutting government projects because it performs a detailed analysis into both pure government financial management areas as well as program management areas. A&M's technical approach builds on the decades of experience in multiple disciplines to ensure the right people with the right expertise, methods, and tools provide the right solutions to meet the state's goals.

A&M's expert consultants with years of experience in government and turnaround management generated findings and recommendations rapidly and laid the foundation for successful implementation, operational

support, realization of savings, and government-wide benefits.

A&M conducted appropriate business reengineering analyses, including assessment of department leadership, operations, citizen services, and revenue enhancement possibilities. These activities led to a more detailed assessment of the department in which the initially identified opportunities were further refined, with agency input, into full recommendations. These recommendations were reviewed with both DOA and agency leadership through two tollgate meetings and further refined in numerous, less formal working sessions between the A&M team and state officials.

Implementation Planning

As the recommendations were further vetted and refined with relevant agencies, A&M developed implementation plans for each recommendation, leveraging its team's extensive experience in government and other transformation situations to detail project plans, communications and stakeholder engagement strategies, and risk mitigation procedures. A&M also outlined target performance metrics in order to appropriately track progress of implementation. The final recommendations, presented in this report, are the result of this extensive process of analysis, review, and testing. They present not only potential opportunities for the State of Louisiana but also actionable steps to achieve real savings and new revenue.

SUMMARY OF RECOMMENDATIONS

After five months immersed in the operations of the state agencies included in GEMS, the Alvarez & Marsal team has developed a set of 72 recommendations to provide more than \$2.7 billion in savings or new revenue to the state over a five-year period.

In developing these recommendations, A&M examined all aspects of the agencies' operations and applied analysis based on its own direct experience and the experience and best practices employed by other entities around the country.

The goals included:

- Identifying ways in which the state agencies being reviewed could be more efficient with their resources and effective with their services
- Developing strategies, wherever possible, for improving services and helping government function better – in addition to saving money
- Working closely with the agencies and the DOA to produce a list of recommendations that are practical and can be implemented to produce results in the near-term

The final list of recommendations includes:

- Fourteen recommendations that fall under DOA's umbrella, including recommendations for the ORM totaling \$128 million over five years, for Procurement totaling more than more than

\$234 million over five years, and for Real Estate and Facilities totaling \$71 million over five years

- Thirteen recommendations for the DHH that will result in savings or new revenue of \$234 million over five years
- Ten recommendations for the DOTD totaling \$103 million in savings over five years
- Seven recommendations for the DPS that will save more than \$45 million over five years
- Six recommendations for the DOC totaling \$105 million in savings over five years
- Five recommendations for the LDR that will result in additional revenue of \$333 million over five years
- Five recommendations for the OJJ that will result in savings or additional revenue totaling \$44 million over five years
- Four recommendations for the LED that will save \$1.9 million over five years
- A recommendation for the DCFS that will save \$2 million over five years
- Cross-agency recommendations including ones for revenue opportunities surrounding improved federal funds management, that several agencies reflect the true cost of the service they provide in setting various fees, and that the state review its FMLA administration policies

The full list of detailed recommendations is found in the chapters that follow.

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Total Five Year Savings and Revenues by Agency/Focus Area [\$000s]							
#	Agency / Focus Area	FY15	FY16	FY17	FY18	FY19	Total
1.	Division of Administration						
a.	Procurement	18,575	50,634	55,188	55,188	55,188	234,773
b.	Facilities Management and Real Estate	4,130	28,316	12,160	12,770	13,551	70,927
c.	Office of General Counsel	685	785	785	785	785	3,825
d.	Office of Group Benefits	149,800	221,600	224,800	227,300	229,000	1,052,500
e.	Office of Risk Management	24,659	25,722	25,790	25,859	25,859	127,889
1.	<i>Division of Administration Subtotal</i>	<i>\$ 197,849</i>	<i>\$ 327,057</i>	<i>\$ 318,723</i>	<i>\$ 321,902</i>	<i>\$ 324,383</i>	<i>\$ 1,489,914</i>
2.	Department of Revenue & Taxation	54,418	90,843	77,718	55,218	55,218	333,415
3.	Department of Health & Hospitals	10,056	43,978	54,689	61,953	63,430	234,106
4.	Department of Transportation and Development	10,506	25,787	20,922	20,922	20,922	99,059
5.	Adult Corrections and Probation	9,488	16,233	26,456	26,531	26,581	105,289
6.	Department of Public Safety	5,130	8,886	9,686	10,609	11,109	45,420
7.	Office of Juvenile Justice	5,830	7,550	8,822	10,879	11,180	44,261
8.	Department of Children and Family Services	223	445	445	445	445	2,003
9.	Louisiana Economic Development	321	388	47,391	47,395	47,398	142,893
10.	Cross Agency Revenue Opportunities	3,029	40,747	40,947	41,157	41,378	167,258
11.	Human Capital	5,523	12,292	15,023	16,515	16,515	65,868
12.	Provider Management	178	418	480	529	579	2,184
Grand Total		\$ 302,551	\$ 574,624	\$ 621,302	\$ 614,055	\$ 619,138	\$ 2,731,670

OFFICE OF RISK MANAGEMENT

The Office of Risk Management (ORM) was created within the Division of Administration by R.S. 39:1527, et seq. in order to provide a comprehensive risk management program for the state. ORM is solely responsible for all property, casualty, and workers compensation insurance purchased or self-insured for all state departments, agencies, boards, and commissions.

The self-insurance program provides workers' compensation coverage to all of the state's employees. Coverage is provided for state property with total values of \$16 billion. Coverage is also provided for employee bonds, crime, automobile liability and physical damage, comprehensive general liability, personal injury liability, boiler and machinery, medical professional liability, and miscellaneous tort coverage.

Other types of coverage are provided as needed, such as excess over self-insurance, specific excess for aviation, wet marine, and bridge property damage.

BACKGROUND OF RECOMMENDATIONS

A&M's recommendations seek to improve the procurement process, improve leave policies, and affect organizational process improvement. Below are the summary recommendations for ORM.

The recommendations achieve savings through:

- Reduced vendor costs made possible through procurement processes that are better aligned with the insurance marketplace
- Self-insurance to avoid pass-through costs
- Aligning state policies with industry standards to reduce excess payments.

RECOMMENDATIONS

Rec #	Recommendation Name	Target Savings and Revenue Estimate (All values in 2014 dollars, in 000s)					Total
		FY15	FY16	FY17	FY18	FY19	
1	Revise Property Insurance Procurement	\$3,023	\$3,125	\$3,125	\$3,125	\$3,125	\$15,523
2	Restructure Property Program	\$16,984	\$17,233	\$17,233	\$17,233	\$17,233	\$85,916
3	Establish a State Insured Builders' Risk Fund	\$322	\$526	\$526	\$526	\$526	\$2,426
4	Align Civil Service WC - Personal Sick Days with State Benchmarks	\$1,250	\$1,250	\$1,250	\$1,250	\$1,250	\$6,250
5	Increase Workers' Compensation Loss Control and Safety Program Participation	\$2,875	\$3,350	\$3,350	\$3,350	\$3,350	\$16,275
6	Realign Headcount and Contract Support with Responsibilities	\$205	\$238	\$306	\$375	\$375	\$1,499
Total		\$24,659	\$25,722	\$25,790	\$25,859	\$25,859	\$127,889

Recommendation #1 – Property Insurance Procurement

ORM should improve the procurement process for obtaining property insurance by selecting a Broker of Record (BOR) through a competitive Request for Proposal (RFP), who then negotiates terms with insurers in consultation with the state. This will result in more insurers competing for the state's business, better insurance coverage and reduced costs on brokerage commissions and policy premiums.

Findings and Rationale

Louisiana's procurement code governs how insurance is purchased, but the current procedure is inconsistent with how both the domestic and international insurance markets operate. The traditional and current insurance practice, both in the government and private sector, is to select a BOR through a competitive RFP process to represent the entity to the insurance market. Through the RFP process, the brokers compete on the basis of expertise, access, strategic insights, service, and cost to represent the client. Terms, conditions, types of coverage, and limits are negotiated by the broker in consultation with the entity.

The revised procurement process, which is used by other governmental, private and public entities, would provide for expanded competition in both coverage and limits. The new process would provide access to more markets and allow for the State to take advantage of economies of scale in their insurance purchasing.

The current insurance procurement process requires brokers to approach insurance companies, get them to agree to participate and obtain a firm price quote for the limits and coverage each insurance company is willing to provide. The broker collects these premium quotes and submits a bid, describing the coverage they propose and an itemization of the costs of the insurance and applicable broker fees.

An evaluation committee reviews the proposals and selects a vendor based on the criteria in the RFP.

Once the bid is awarded, a contract is issued and the broker purchases the coverage agreed to in the contract at the price specified in the proposal.

The new RFP tool will result in more insurers competing for the state's business, better insurance coverage and reduced costs on brokerage commissions and policy premiums. This allows them to structure the program with limits and layers utilizing various known carriers, including some of those currently utilized on the incumbent program.

The broker RFP process allows for alternatives to be considered and detailed terms and conditions negotiated between various carriers as layers are placed and committed, rather than having the terms carved in stone from the outset. Additionally, the new RFP process will allow negotiation and competition between carriers over an extended period, up until binding of coverage. As dynamic as the property market can be, this additional time to pursue and consider improvements in terms and pricing is material. Flexibility to the benefit of the state is expanded, while the risk is minimized.

Despite the complexity of the state's program, there are large property insurers that would be interested in participating in the program, some of which have declined to participate in the past as a result of the process currently being used.

RECOMMENDATION #1 - (DOLLARS IN 000's)

<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
\$3,023	\$3,125	\$3,125	\$3,125	\$3,125

Assumptions

The feasibility of achieving cost savings from this recommendation is based, in part, on the following assumptions. The cost estimates were confirmed in discussions with top-tier brokers confirming their interest in brokering the property program for a fee of between \$700,000 but not to exceed \$1 million. The overall savings estimates are calculated through the reduction in the current property premium of \$3.1 to

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\$3.4 million, plus the additional program savings of \$195,500.

Assumptions related to broker procurement costs:

- Based on 2014 total insured values of \$18.5 billion (including LSU)
- Use current program catastrophe limits base
- Use the current the spread of Zone 1 and Zone 2 exposures
- Assumes that all future broker services to be at or above current level
- Includes investment costs of \$75,000 to \$150,000 for consulting costs of implementing the process
- Uses a discount factor of 9.3 percent to remove the federal funding from the overall savings total
- The factor was based on the ORM FY15 Risk Management Premiums report showing 9.3 percent in federal spend with the remaining 90.3 percent of premiums covered by state funds (i.e., state general fund, non-federal interagency transfers, fees, and self-generated, and statutory dedication)

Recommendation #2 – Property Program Restructure

Utilizing a refined procurement strategy will create savings in brokerage fees and commissions, as outlined above, as well as in actual insurance costs.

Findings and Rationale

The state currently purchases \$200 million of excess property insurance above a per occurrence self-insured retention of \$50 million. Additionally, half of the state, including the two largest metropolitan

areas, lies within Named Windstorm Zones 1 and 2 adding further complexity to the property placement. The current placement of the \$200 million consists of 26 domestic insurers and six Lloyds syndicates comprised of 23 international insurers. Although it is common for large coastal property schedules to be shared among multiple domestic and international insurers under normal market conditions, the program's current spread of risk among carriers seems too broad given the exposure.

Utilizing a new procurement strategy will create savings in brokerage fees and commissions, as outlined above, as well as in actual insurance costs.

However, the ability to restructure the property program is directly tied to the change in the insurance procurement process. Without a change in the procurement process, it is unlikely that savings will be realized in the property program.

RECOMMENDATION #2 - (DOLLARS IN 000's)

FY15	FY16	FY17	FY18	FY19
\$16,984	\$17,233	\$17,233	\$17,233	\$17,233

Assumptions

The projected savings are based on the below assumptions:

- If the insurance market was approached in the manner of open competition, additional savings would be realized on the premiums while insuring the current and full property values or Total Insured Value (TIV).
- Best estimates of these savings are based on an analysis of the state's exposure and the current market conditions

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Current Program Cost Assumptions*

Total Insured Value (<i>Exposure Basis</i>)	\$	15,835,076,827
<i>Current Rate</i>		0.209582071
Total Premium	\$	33,187,482

Estimated Future Costs**		Status Quo		Estimated Low		Estimated High
Total Insured Value (<i>Exposure Basis</i>)	\$	18,512,438,965	\$	18,512,438,965	\$	18,512,438,965
<i>Estimated Rate</i>		0.209582071		0.135044334		0.097231921
Total Premium	\$	38,798,753	\$	25,000,000	\$	18,000,000
Net Change From Current Pricing	\$	5,611,271	\$	(13,798,753)	\$	(20,798,753)

*Excludes LSU

**Estimated future costs are based on a TIV increase resulting from the most recent 2014 property value assessment

Figure 2.18: Procurement Program Cost Savings Assumptions

- The estimated premium was provided by one of the leading property brokers based on the state's total insured values and locations
- Excluding low-value, single-location state buildings from the excess property insurance placement would reduce the rating base or (TIV) and reduce annual insurance premiums
- Due to potential overlap with other department deliverables and additional analysis required to reflect the estimated cost of retaining more risk the potential savings is not included in the savings estimate
- Investment costs for consulting and actuarial support will range from \$200,000 to \$350,000
- Property program is based on a July 1st policy year
- The savings estimates have been discounted by 9.3 percent to remove the federal funding from the overall savings total

participation by otherwise qualified smaller contractors who lack the buying power to obtain these policies at costs that are manageable.

Findings and Rationale

By creating a state-sponsored guarantee fund to self-insure the builders' risk insurance costs currently purchased by contractors – and reinsuring it through global insurance markets – the state could realize significant savings and bring additional small businesses into the competitive bidding process.

The initial reserve requirements could be achieved through a public debt offering. Contractors could then present project bids net of these insurance costs. Ultimately, the fund would bill the contractor for the current market competitive Rate On Line (ROL), issue certificate of insurance to the lender (if applicable), meet its initial reserve requirements achieved through bond issuance, and open the market up to smaller contractors by reducing the leverage larger contractors can apply to insurance carriers that smaller contractors cannot.

Recommendation #3 – Establish a State Insured Builders' Risk Fund

Contractors are required to have builders' risk insurance for state construction projects. These policies typically have high deductibles, requiring contractors to buy additional policies to cover potential deductible costs, and the policies are very costly. These costs are passed along to the state. In addition, the necessity for these policies hinders

RECOMMENDATION #3 - (DOLLARS IN 000's)

FY15	FY16	FY17	FY18	FY19
\$322	\$526	\$526	\$526	\$526

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Assumptions

The projected savings are based on the below:

- An analysis of the pro-forma business model for a builders' risk deductible buy-down program based on a historical review of contractor buildings projects from January 1, 2010 to February 19, 2014.
- Pro-forma is based on prior three years' contractor project values
- Due to the relatively low level of activity in the last three years, the average per year was assumed to be one third of the total estimated premiums on the low end and based on an expectation of increased building activity on the high end
- The cost avoidance of builder pass-through costs result in \$300,000 to \$500,000 in annual savings
- Deductible buy-down premiums are based on 12-month policy terms
- Zone 1 named windstorm deductibles are set at five percent of TIV (Total Insured Value), Zone 2 named windstorm deductibles are set at three percent of TIV
- The estimate does not include any deductible buy-down costs for Non-Zone 1 and 2 risks, which still may exist
- Investment costs of between \$150,000 and \$300,000 of up-front investment capital assumptions include contract engagement for program design and implementation, and cost of capital for public debt issuance
- The estimated premiums paid to the fund are assumed to be equal to the premiums paid for

the past builder risk insurance less the expected payouts based on the underwriting ROI on insurance fund

- The ROI of book composition is based on typical industry loss ratios with a reduced SG&A to account for the fund's expenses being far less than for-profit insurance company overhead
- The result is a 40 percent combined ratio for high end savings, and 80 percent for low end savings, but does not include investment grade yield on fund reserves
- The estimate assumes \$300,000 to \$500,000 premium less 40 to 80 percent underwriting costs, resulting in net revenues of \$60,000 to \$300,000 with target revenues of \$180,000
- The savings estimates have been factored down by 9.3 percent to remove the federal funding from the overall savings total

Recommendation #4 – Align Civil Service Workers Comp-Personal Sick Days with Other State Benchmarks

Under the state's workers' compensation system, workers are paid significantly more than in other states or in the private sector – an amount which, after taxes, actually reduces the incentive to return to work. By eliminating the ability to use sick leave in addition to workers' compensation, employees will be more likely to return to work when appropriate for their situation.

Findings and Rationale

Civil Service Rule 11:21 requires workers injured on the job and receiving workers' compensation benefits to use sick leave or a combination of sick leave and annual leave.

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This process is inefficient. It allows the injured worker to continue to accrue sick leave while on leave. The process of paying the injured worker 100 percent of

- Florida and Mississippi pay the federally recommended 66.67 percent, and Florida

Leave Buy-Back

Current Costs	2011	2012	2013	Total
<i>Claim Count</i>	9,129	8,367	8,059	25,555
WC Buy-Back (66.67% of Base Salary)	\$ 1,997,443	\$ 2,182,261	\$ 2,915,273	\$ 7,094,977
Leave Time Paid by State (.333)	\$ 998,722	\$ 1,091,130	\$ 1,457,636	\$ 3,547,488

Figure 2.19: Leave Buy-Back Assumptions

their salary is also a disincentive to return to work and various agencies have expressed concern that it is difficult to get employees back to work once they are receiving workers' compensation.

Workers staying out longer than necessary can create morale issues and causes the state to accrue additional overtime costs for other employees who are required to cover the responsibilities of those individuals who are not on the job.

mandates the use of sick leave

- Texas pays 70 percent and allows for the use of either sick leave or vacation
- A&M could not identify any state that uses leave buy-back as a requirement for workers compensation
- A&M could not identify any state that pays 100 percent of wages for workers compensation claims

RECOMMENDATION #4 - (DOLLARS IN 000's)

FY15	FY16	FY17	FY18	FY19
\$1,250	\$1,250	\$1,250	\$1,250	\$1,250

By eliminating the ability to use sick leave in addition to workers' compensation, employees will be more likely to return to work when appropriate for their situation.

Assumptions

The projected savings are based on the below assumptions:

- Potential exposure was calculated based on the past three years of payments in contrast with potential additional expense and exposure
- The savings estimate is based on an average of the previous three years
- Louisiana is one of only nine states in the country that pay more than the federal recommendation of 66.67 percent

Recommendation #5 – Increase Workers' Compensation Loss Control and Safety Program Participation

ORM's Targeted Risk Improvement Program (TRIP) is a loss prevention program designed to reduce claims by reducing accidents and injuries. By refocusing and enhancing the agencies' participation in TRIP as well as other programs, cost reductions can be achieved in the Workers Compensation program.

Findings and Rationale

The TRIP program is designed to reduce claims costs by reducing accidents and injuries. The departments participating in the TRIP tend to have more cost efficient "cost per man hour" calculations compared to the agencies that have not participated.

By refocusing and enhancing the agencies' participation in the TRIP as well as other programs, cost reductions can be achieved in the Workers Compensation program.

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Standardization of agency reporting must be implemented to ensure that loss analytics and benchmarking across agencies are accurate. Additionally, accurate headcounts need to be kept current along with current loss reports to accurately measure and forecast estimated costs and identify agencies whose loss trends are below the established benchmarks.

RECOMMENDATION #5 - (DOLLARS IN 000'S)

FY15	FY16	FY17	FY18	FY19
\$2,875	\$3,350	\$3,350	\$3,350	\$3,350

Assumptions

The projected savings are based on the below assumptions:

- Full participation across all agencies as well as more robust monitoring and reporting can further reduce costs by an additional 20 to 25 percent according industry benchmarks
- There can be a five to 10 percent reduction in total claims leading to a reduction in total claims cost
- Increased accountability through budget incentives / penalties for the Agencies should increase participation rates
- With additional support and implementation of the safety guidelines and procedures will lead to reduction in number and severity of workers compensation claims
- Light duty work positions should be established in all agencies
- A system-wide claims cost monitoring process should be put in place that includes current losses and headcounts updated on a monthly basis to accurately monitor and forecast claims cost trends by agency
- Savings will be derived both from reducing the frequency of claims, and by reducing claims costs for losses incurred

- Investment costs to ORM for increasing loss control and reporting is estimated to be between \$500,000 to \$750,000 with ongoing investments costs of \$100,000 to \$200,000 to account for increased administrative work

Recommendation #6 – Realign Headcount and Contract Support with Responsibilities

Review current staffing, expense and budget for the ORM given the current workloads and operations. ORM has taken substantive steps toward reducing headcount and costs within their department. Our review of their organizational strategy is process oriented.

Findings and Rationale

ORM currently has 35 full-time employees. There are 18 vacancies within the department which will not be filled, in addition to three open positions to be filled as well as two “B-owned positions” (i.e., a position that is held open due to temporary transfer of employees into other positions). Two additional positions will be eliminated in FY16 as a result of the TPA renewal. There are 10 contract positions working on claim files, many of whom are assigned to prior hurricanes. As the hurricane claims are settled, the need for these contractors will be reduced barring any new hurricanes.

ORM process and systems observations:

- Currently there is a significant amount of time spent on contract review that could be streamlined
- Claims data and payments handling should be reengineered. Currently the leave buy-back checks are issued to the agency.
- Reports such as Chronic Opiate Therapy should be reviewed and sent to the agencies for review and action
- F.A. Richard & Associates, Inc. (FARA) provides boilerplate reports; report queries need to be run by FARA

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- FARA provides PDF versions of their reports making it very difficult to use them for in-depth analysis
- ORM currently uses information from several systems which can lead to inconsistencies between reports and inaccurate analysis
- Despite there being an adequate amount of data collection, there are inconsistencies in the centralization and accessibility of the data, which can lead to inefficiencies in the allocation of resources and mismanagement of budget related items
- In some cases, information that is generated does not get to the end user

ORM should review its current staffing, expense and budget, given the current workloads and operations. While ORM has taken substantive steps toward reducing headcount and costs within their department, A&M believes that the claims currently handled by contract adjusters are diminishing and thus the costs associated with them can be reduced.

RECOMMENDATION #6 - (DOLLARS IN 000'S)

FY15	FY16	FY17	FY18	FY19
\$205	\$233	\$306	\$375	\$375

the high estimate in FY15, and will escalate over the five year period to between 15 percent and 30 percent by FY19

- Further emphasis on the accessibility, management, and communication of otherwise adequate data records should result in material cost reductions without having to make significant operational cuts
- Improvements to technology management systems similar to those used by large insurers, companies, and agencies in the private sector, will enhance the ability for multiple users to access critical information without compromising the data
- A realignment of current personnel to oversee systems and information should be considered. Savings are based on the reduced need for claim consultants as the existing claims are closed
- The savings estimates have been factored down by 9.3 percent to remove the federal funding from the overall savings total

Assumptions

Projected savings were based on the below assumptions:

- There are 10 contract positions working on claim files, many of whom are assigned to prior hurricanes
- The total cost of this contract is \$1.86 million in FY13
- The reduced need for claims processing moving forward should enable between eight percent reduction in the low estimate and 16 percent in

PROJECT IMPLEMENTATION PLAN

Project Management / Implementation Strategy

The project plan for ORM comprises recommendations that involve five different operational areas: property procurement and program restructuring, fiscal efficiencies through the builders' risk buy-down reform, headcount and process efficiencies, and human capital management including workers compensation / sick day reform and worker's compensation loss control.

The different types of planning required for each of these categories result in significantly more detailed change management plans. In the following sections A&M has outlined the basics steps the A&M team believes are required to implement and successfully achieve the recommended projects.

The table below outlines key implementation tasks required to complete each recommended project. The implementation plan includes resource estimates for consultants and government workers. Many of the recommendations only require partial resources, allowing a single FTE to work across multiple projects.

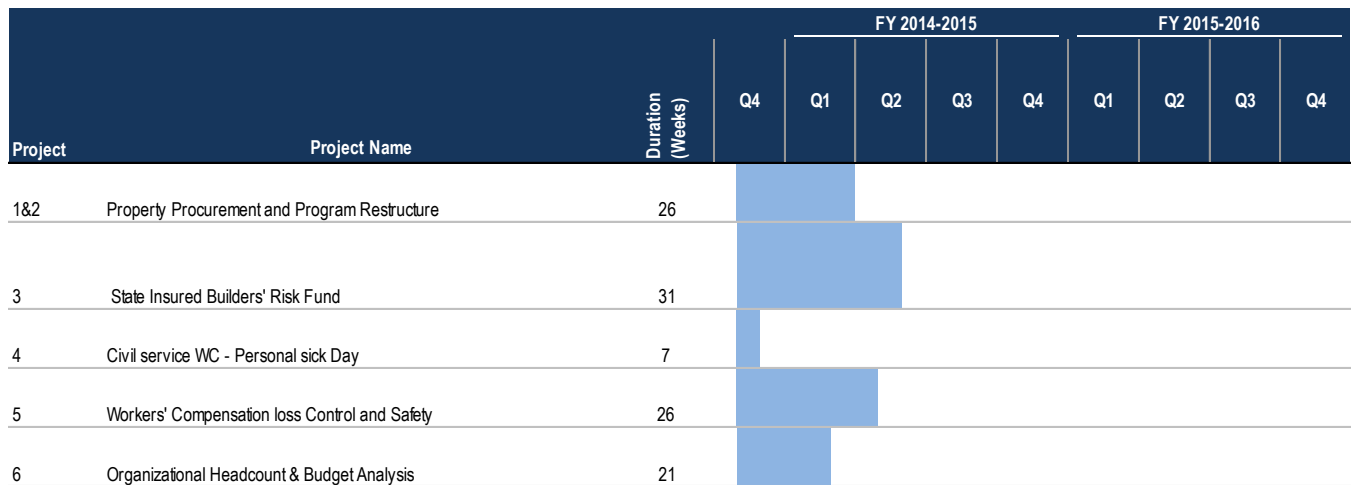


Figure 2.20: ORM Project Plan Gantt Chart

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WBS	Tasks	Resources
1	ORM Recommendation #1 & #2 -- Property Procurement and Program Restructure	
1.1	Legislative change to the procurement code	Legislative
1.2	Create a Request for Proposal (RFP) document and distribute to already identified insurance brokers	1 Gov't FTE + 2 PTE Consultants
1.3	Provide 30 days response time, and review written RFP responses as they arrive	1 Gov't FTE + 2 PTE Consultants
1.4	Reduce RFP response candidates to three, host oral presentations, and make final selection	1 Gov't FTE + 2 PTE Consultants
1.5	Distribute all necessary underwriting data to the selected broker for initial review	2 Gov't FTE + 2 PTE Consultants
1.6	Analyze various program strategies with broker and submit underwriting info to the market	2 Gov't FTE + 2 PTE Consultants
1.7	Review initial program and pricing indications and provide additional requested information to market if requested	2 Gov't FTE + 2 PTE Consultants
1.8	Review final program and pricing proposals and bind coverage	2 Gov't FTE + 2 PTE Consultants
2	ORM Recommendation #3 – Establish a State Insured Builders' Risk Fund	
2.1	Quantify fund reserve requirements	1 Gov't FTE + 2 PTE Consultants + 1 Actuary
2.2	Legislative changes to approve state fund	Legislative
2.3	Map and implement internal administration, and claims handling guidelines	2 Gov't FTE + 2 PTE Consultants
2.4	Execute program and coordinate initial communication with lenders and agents for interim period	1 Gov't FTE + 2 Project Coordinator
3	ORM Recommendation #4 – Align Civil Service WC - Personal sick Day with Other State Benchmarks	
3.1	Requires Civil Service rule change	Legislative

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WBS	Tasks	Resources
3.2	Develop and refine new process once approved	1 Project Coordinator
3.3	Communicate changes to TPA	0.25 FTE Gov't FTE + Project coordinator
3.4	Communicate changes to all agencies	0.25 FTE Gov't FTE + Project coordinator
3.5	Communicate changes to all employees	0.25 FTE Gov't FTE + Project coordinator
4	ORM Recommendation # 5 – Increase Workers' Compensation loss Control and Safety Program Participation	
4.1	Perform an analysis and review of the current available WC data	1 Gov't FTE + 1 Project Coordinator
4.2	Develop plan for return to work/light duty	0.25 FTE Gov't FTE + Project coordinator
4.3	Develop implementation plan including WC costs and benchmarks	0.25 FTE Gov't FTE + Project coordinator
4.4	Meet with agencies to review their costs and benchmarks	0.25 FTE Gov't FTE + Project coordinator
4.5	Develop loss control and safety plans for individual agencies	0.25 FTE Gov't FTE + Project coordinator
4.6	Begin implementation rollout	0.25 FTE Gov't FTE + Project coordinator
4.7	Provide training and outreach to agencies	0.25 FTE Gov't FTE + Project coordinator
4.8	Monitor agencies adherence to plan	0.25 FTE Gov't FTE + Project coordinator
5	ORM Recommendation #6 – Realign Headcount and Contract Support with Responsibilities	
5.1	Restructure organizational responsibilities	.50 Gov't FTE + 1 Project Coordinator

WBS	Tasks	Resources
5.2	Review and consolidate current systems used for claims reporting	1 Gov't FTE + Systems Support
5.3	Develop benchmarks to evaluate TPA's performance	0.25 FTE Gov't FTE + Project coordinator
5.4	Develop the criteria needed for TPA provided reports	0.25 FTE Gov't FTE + Project coordinator
5.5	Develop a plan to monitor TPA claims information	0.25 FTE Gov't FTE + Project coordinator
5.6	Develop a plan for detailed claim file review to include updates to the agency	0.25 FTE Gov't FTE + Project coordinator

Figure 2.18: ORM Project Plan

Affected Stakeholders

Changes in this area may require legislative approval, so communications with the legislature will be crucial.

On property insurance, the recommended changes will maintain transparency, increase competition, and result in better coverage at lower cost – which should make for a persuasive argument in their favor. Communications with insurance brokers, in particular, will be helpful as there are many who have not participated in this process previously, but who may be interested in bidding for the state's business after the changes are made. Those who support this initiative should be encouraged to voice their opinion.

Communication to insurance brokers may take the form of letters and e-mails, alerting them to this proposal and the opportunity it could provide, as well as through coverage in national insurance trade publications.

Communicating with employees about any changes in the workers compensation process should involve Human Resources personnel. The employees should be given materials, approved by legal counsel, that reflect whatever changes are implemented.

Change Management

A&M's recommendations will require change management strategies to ensure an effective transition from the organization's current structure to the desired future state. Specifically, it is important to focus on managing scheduling and work plan development, stakeholder communication, and recommendation implementation.

These procedures will ensure clear communication of the projects' activities and intended benefits to all involved parties to ensure their compliance and commitment. Interested parties not only will be aware of action items but also will have the opportunity to offer insight into changes prior to being put into motion. For example, regular meetings with important stakeholders and timely updates on implementation progress will be critical to maintain momentum, identify potential roadblocks, and allow all parties to offer feedback (Recommendation 5). Additionally, it is important for ORM to focus on communications, analysis, performance management, and knowledge transfer. A concise plan of action will be crucial to keep all affected agencies involved and updated of progress. Listed below is a detailed outline of the change management considerations for each of the stated recommendations:

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Recommendations 1 and 2: Scheduling and Work Plan Development

- Establish and agree on a project schedule with timeline
- Clearly define the scope of the project
- Define roles and responsibilities
- Assign champions and project leaders when applicable

Recommendation 4 and 5: Managing Stakeholder Communication

- Establish a mandate and agreement that all agencies will participate
- Develop detailed communications plan that specifies key communication goals, primary audiences, communication media, timelines, and feedback mechanisms
- Conduct regular meetings to garner feedback and report on progress
- Deliver announcements to stakeholders groups

Recommendations 1,2,3,4,5,6: Implementation

- Establish new tracking and reporting changes for new processes
- Monitor cost savings as realized
- Begin handoffs to have ORM manage the process

- Conduct transition meetings

Monitoring and Tracking Models

Monitoring and tracking is directly correlated to the reduction in costs because performance tracking in ORM is less managerial/operational and more a result of process changes that will result in savings. Establishing these tracking mechanisms will be critical in ensuring the long-term effectiveness of proposed recommendations and communicating their benefits to key stakeholders. Also, these objectives provide a clear focus for ORM in the future and should remain relevant as new recommendations are proposed and adopted.

Listed below are the six performance measures with their corresponding objectives that will be instrumental to achieving the ORM's future savings goals. In general, the performance measures will be easily tracked using existing tools. For example, the loss ratio needed for recommendation three can be compiled from existing management reports. Best practices are to establish regular intervals at which to review the measures at the outset to ensure progress is consistently captured.

Rec#	Objective	Performance Measure	Target	Unit
1	Change Procurement Guidelines	Legislation grants wording changes to allow RFP	NA	NA
2	Reduce program costs	Savings to the ORM	15	\$1m
3	Fund produces underwriting profit to the State	Loss ratio	50	% of Annual Premium
4	Savings from process change	Savings to the ORM	1	\$1m
5	Reduction in claims costs	Aggregate savings from reduction in claims frequency and avg. cost per claim	3	\$1m
6	Process improvement	Reduction of hours in reporting	NA	NA

Figure 2.19: Monitoring and Tracking Tool